

BEFORE THE
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION) DOCKET NO.
On Its Own Motion,) 02-0716
Vs.)
ATMOS ENERGY CORPORATION)
Reconciliation of revenues)
collected under gas adjustment)
changes with actual costs)
prudently incurred.)

Springfield, Illinois
October 24, 2003

Met, pursuant to notice, at 9:00 a.m.

BEFORE:

MR. LARRY JONES, Administrative Law Judge

APPEARANCES:

MR. DOUGLAS C. WALTHER
5430 LBJ Freeway
1800 Three Lincoln Centre
Dallas, TX 75240
(Appearing via telephone on behalf of Atmos
Energy Corporation.)

SULLIVAN REPORTING COMPANY, by
Carla Boehl, Reporter
Ln. #084-002710

1 APPEARANCES:

2 MS. MARY EVERSON

3 527 East Capitol Avenue

4 Springfield, Illinois 62701

(Appearing on behalf of the Staff of the
Illinois Commerce Commission.)

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I N D E X

WITNESSES	DIRECT	CROSS	REDIRECT	RECROSS
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BOBBY CLINE

By Mr. Walther

23

By Judge Jones

27

MARY EVERSON

Testimony

33

I N D E X

EXHIBITS

MARKED

ADMITTED

Atmos 1, 2

e-docket

27

Atmos 3, 4, 4P

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27

ICC Staff 2.0

e-docket

35

ICC Staff 2.1

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1 P R O C E E D I N G S

2 JUDGE JONES: On the record. Good morning. I
3 call for hearing Docket Number 02-0716. This is the
4 matter of the Illinois Commerce Commission on its
5 own motion versus Atmos Energy Corporation,
6 reconciliation of revenue collected under gas
7 adjustment charges with actual costs prudently
8 incurred.

9 May we have the appearances orally for the
10 record, first on behalf of Atmos.

11 MR. WALTHER: Yes, appearing for Atmos, Douglas
12 C. Walther, W-A-L-T-H-E-R, 5430 LBJ Freeway, Dallas,
13 Texas 75240, and my phone number is (972) 855-3102
14 and e-mail douglas.walther@atmosenergy.com.

15 JUDGE JONES: Thank you. How about the
16 Commission staff?

17 MS. EVERSON: Mary Everson appearing for Staff
18 of the Public Utilities Bureau of the Illinois
19 Commerce Commission. My address is 527 East Capitol
20 Avenue, Springfield, Illinois 62701. My phone
21 number is (217) 785-5425. And my e-mail address is
22 meverson@icc.state.il.us.

1 JUDGE JONES: Thank you. Are there any other
2 appearances? Let the record show there are not.

3 At this time for purposes of briefly going
4 over the agenda for today's hearing, we hereby go
5 off the record.

6 (Whereupon there was
7 then had an
8 off-the-record
9 discussion.)

10 (Whereupon ICC Staff
11 Exhibit 2.1 and Atmos
12 Exhibits 3, 4, and 4P
13 were marked for purposes
14 of identification as of
15 this date.)

16 JUDGE JONES: Back on the record. There was an
17 off-the-record discussion for the purposes
18 indicated. Among other things we went through the
19 exhibits that the Company intends to offer. We gave
20 them exhibit numbers that will be identified on the
21 record. I think most of the exhibits are prefiled
22 on e-Docket and are to be offered into the record as

1 filed. There are a couple of hard copy exhibits
2 from the Company.

3 Also looked at the Staff filings. One of
4 the Staff witnesses is here and the other is to have
5 testimony sponsored through an affidavit.

6 I have also indicated I have a few
7 questions of Company witness Mr. Cline. At this
8 time why don't we go ahead and proceed with the
9 testimony? Mr. Walther, do you have a witness to
10 call?

11 MR. WALTHER: Yes, the company calls Bob Cline.

12 JUDGE JONES: Please raise your right hand,
13 sir, to be sworn.

14 (Whereupon the Witness was duly sworn
15 by Judge Jones.)

16 JUDGE JONES: Thank you. Go ahead with your
17 examination, Mr. Walther.

18 MR. WALTHER: Okay. Thank you.

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1 **BOBBY J. CLINE**

2 called as a Witness on behalf of Applicant, having
3 been first duly sworn, was examined and testified as
4 follows:

5 DIRECT EXAMINATION

6 BY MR. WALTHER:

7 **Q.** Mr. Cline, could you state your name and
8 business address for the record.

9 **A.** My name is Bobby J. Cline, C-L-I-N-E. My
10 business address is 381 Riverside Drive, Suite 440,
11 Franklin, Tennessee 37064.

12 **Q.** And by whom are you employed and in what
13 capacity?

14 **A.** I am employed by Atmos Energy Corporation. I
15 am manager of Rate Administration.

16 **Q.** Are you the same Bob Cline who filed the direct
17 testimony in this matter that has been marked as
18 Exhibit 2?

19 **A.** Yes.

20 **Q.** And I will refer you to what's been marked as
21 Exhibit 1. That's the annual Illinois gas
22 reconciliation. Did you prepare that or was it

1 prepared under your supervision?

2 **A.** Yes, it was prepared under my supervision.

3 **Q.** What's been marked as Exhibit 3 are Data
4 Requests GS-9 and GS-10, actually responses to those
5 data requests. Were those responses prepared by you
6 or under your supervision?

7 **A.** Yes.

8 **Q.** Exhibit 4 consists of more data requests.
9 Those would be Data Requests 2.01 through 2.18,
10 2.19, 2.21 through 2.29 and then with this next
11 group with the exception of 2.37 and 2.43, but all
12 the other ones between 2.31 and 2.57, as I said,
13 those have been marked as Exhibit 4 with the
14 exception of the two I mentioned. Did you prepare
15 those or were those prepared under your supervision?

16 **A.** Yes.

17 **Q.** Responses to 2.37 and 2.43 have been marked as
18 proprietary. Why does the Company ask for
19 proprietary treatment of those?

20 **A.** This has pricing data related to our financial
21 hedging activity as well as some information on our
22 bidding prices. We believe that this information is

1 confidential and could possibly harm the Company if
2 made general public knowledge.

3 **Q.** Responses to 2.37 and 2.43 have been marked as
4 Exhibit 4P. Did you prepare those or were they
5 prepared under your supervision?

6 **A.** Yes.

7 **Q.** Mr. Cline, are the answers contained in your
8 testimony, in what's been marked as Exhibit 2, true
9 and correct to the best of your knowledge and
10 belief?

11 **A.** Yes.

12 **Q.** Do you have any changes to your testimony or
13 any of the exhibits at this time?

14 **A.** No, I do not.

15 **Q.** And if asked the same questions, would your
16 answers be the same?

17 **A.** Yes.

18 **Q.** Have you reviewed Staff's testimony in this
19 docket?

20 **A.** Yes, I have.

21 **Q.** And are you in agreement with it?

22 **A.** Yes.

1 MR. WALTHER: I would at this time move that
2 Exhibits 1, 2, 3, 4 and 4P be admitted into evidence
3 and tender Mr. Cline for cross examination.

4 JUDGE JONES: Thank you, Mr. Walther. One
5 quick point of clarification, is it correct that the
6 portion of 2.37 and 2.43 that are to be kept
7 confidential are the attachments to the cover sheet?

8 MR. WALTHER: That's correct.

9 JUDGE JONES: Thank you. Are there any
10 objections to the admission of those Company
11 exhibits?

12 MS. EVERSON: No.

13 JUDGE JONES: Let the record show those are all
14 admitted into the evidentiary record at this time.
15 Atmos Exhibit 1 is admitted as filed electronically
16 on April 1, 2003, and that consists of Files 4 and 5
17 as shown on the e-Docket list. Atmos Exhibit 2 is
18 File Number 5 on that same date, filed April 1,
19 2003. It is admitted as it appears on the e-Docket
20 system. Atmos Exhibit 3, Atmos Exhibit 4 and Atmos
21 Exhibit 4P are hard copy exhibits and are admitted
22 into the evidentiary record as such.

1 (Whereupon Atmos
2 Exhibits 1, 2, 3, 4 and
3 4P were admitted into
4 evidence.)

5 Does Staff have any questions for
6 Mr. Cline?

7 MS. EVERSON: No, we don't.

8 EXAMINATION

9 BY JUDGE JONES:

10 **Q.** Mr. Cline, I just had a couple questions for
11 you. I believe they appear on page 5 of your
12 testimony. Do you have a copy of that in front of
13 you?

14 **A.** I do.

15 **Q.** Now, at line 2 you refer to swing volumes. Do
16 you see that reference?

17 **A.** Yes, sir.

18 **Q.** What are you talking about there when you speak
19 of swing volumes?

20 **A.** Volumes or volumes that are above and beyond
21 what we were projecting from our base load. Our
22 base load we are projecting volumes at a normal

1 level of service. If the weather becomes colder
2 than we were expecting based on that normal and we
3 have to buy additional supplies from the system, we
4 refer to that as swing volume.

5 **Q.** Now, on line 5 of that same page you move from
6 a discussion of the transportation arrangements to
7 the acquisition of supply issue, is that correct?

8 **A.** That's correct.

9 **Q.** On line 7 you refer to a five-month winter
10 contract with suppliers. Could you explain what you
11 mean by that?

12 **A.** We have contracted or did contract with
13 different suppliers, depending on the particular
14 areas being served in Illinois, and we entered into
15 a contract for the five winter months, November
16 through March, and set the price on certain indexes
17 or indices, rather, a price differential from that
18 indices.

19 **Q.** Is that still the Company's practice?

20 **A.** Yes.

21 **Q.** How did those particular indices work?

22 **A.** There are normal industry indices as is

1 published the first of the month indices. Indices,
2 depending on the terms of the contract, it would be
3 either plus or minus certain percentage points from
4 those indices to establish the price per month.

5 **Q.** Did you say those are established the first of
6 the month?

7 **A.** That's what we refer to as the first of the
8 month indices, yes.

9 **Q.** Then that first of the month index is
10 applicable for how long?

11 **A.** That's for the current month.

12 **Q.** And when you refer to the five-month winter
13 contract, what months are you referring to there?

14 **A.** Months of November through March.

15 **Q.** Then you go on to refer to purchases from the
16 spot market during the summer months. Could you
17 explain how that works?

18 **A.** Yes. Again, we get our supply during the
19 winter months based on the prevailing market prices
20 at time and also it usually is based upon an index
21 of some sort plus or minus a few percentage points.
22 I should say a few points, not percentage points. A

1 few points.

2 **Q.** Well, when I refer to using the spot market
3 during the summer months, how does -- could you sort
4 of walk me through how you do that?

5 **A.** We, again, have a projected supply volume that
6 we will need. We basically go out and buy the gas
7 off the market at that point in time, paying the
8 market price for that current period on a month to
9 month basis. We do this every single month.

10 **Q.** What happens to that gas?

11 **A.** That is just to provide our normal supply for
12 the customers for each of the summer months.

13 **Q.** What are the summer months in that context?

14 **A.** The summer months are April through October.

15 **Q.** Then you go on to say except with MRT, NGPL and
16 Trunkline in which we have a 12-months agreement.
17 Do you see that language?

18 **A.** I do.

19 **Q.** What do those pipeline agreements have to do
20 with your spot market purchases during the summer
21 months, if anything?

22 **A.** The language is a little bit misleading because

1 the MRT, NGPL and Trunkline are transportation
2 agreements and are not associated with supply.

3 **Q.** A little farther down in that same answer,
4 beginning on line 11, you refer to entry into
5 financial futures and collars contracts. Could you
6 explain what you mean by those terms?

7 **A.** Yes. The financial futures are financial
8 instruments that we buy that we have agreed upon a
9 price per month during the winter period for a
10 certain portion of our volume and the collars are
11 financial instruments where we have set, again, a
12 certain portion of our projected volume or
13 requirements. The collars are pretty much, I guess
14 to put it simply, is to set a ceiling price. If our
15 market, if the market price should go above the
16 price set in the collars, the maximum amount the
17 Company would have to pay would be the amounts set
18 in the collars.

19 **Q.** When are those contracts entered into?

20 **A.** They are entered into throughout the summer
21 period starting in April, and the personnel
22 responsible for the purchasing of these financial

1 instruments will do so throughout the months of
2 April through October, evaluating where the
3 financial instruments are priced and also comparing
4 that to the market price of gas projected to be
5 occurring during the winter period. That is done
6 throughout but it is done throughout the summer
7 period.

8 **Q.** Now, where you refer to the months of November
9 2002 through March 2003 in that statement, is that
10 for delivery?

11 **A.** That's correct.

12 **Q.** Finally, in your testimony, page 6, line 7, for
13 example, you refer to hedging. Could you just
14 briefly explain what you mean by that?

15 **A.** The hedging is the purchase of the financial
16 contracts we were just discussing. A means of
17 trying to move extreme volatility from the price of
18 gas that the Company pays to its suppliers and
19 therefore charges its customers.

20 JUDGE JONES: Thank you. That's all the
21 questions I have for Mr. Cline. Did the Company or
22 Staff have any follow-up questions?

1 MR. WALTHER: I don't have any.

2 JUDGE JONES: All right. So that's all the
3 questions for Mr. Cline then. Thank you, Mr. Cline.

4 (Witness excused.)

5 I think that brings us to Staff. Please
6 stand and raise your right hand to be sworn.

7 (Whereupon the Witness was duly sworn
8 by Judge Jones.)

9 **MARY EVERSON**

10 called as a Witness on behalf of Staff of the
11 Illinois Commerce Commission, having been first duly
12 sworn, was examined and testified as follows:

13 JUDGE JONES: Would you go ahead and identify
14 yourself as a witness and identify any testimony you
15 are sponsoring?

16 MS. EVERSON: I am an accountant in the
17 Financial Analysis Division of the Public Utilities
18 Bureau.

19 JUDGE JONES: Could you go ahead and give us
20 your name first?

21 MS. EVERSON: Oh, all right. Mary Everson. I
22 am an accountant in the Public Utilities Bureau of

1 the Illinois Commerce Commission. I am presenting
2 ICC Staff Exhibit 1.00 entitled the Direct Testimony
3 of Mary H. Everson which was filed on e-Docket on
4 September 25, 2003. It consists of eight pages of
5 written testimony and one schedule. If I were asked
6 the same questions today, the answers would be the
7 same and no changes, additions or modifications to
8 this exhibit.

9 JUDGE JONES: Thank you. Does the Company have
10 any questions for Ms. Everson?

11 MR. WALTHER: We do not.

12 JUDGE JONES: Is there any objection to the
13 admission of her testimony?

14 MR. WALTHER: No.

15 JUDGE JONES: Let the record show that Staff
16 Exhibit 1.00, actually ICC Staff Exhibit 1.00,
17 sponsored by Ms. Everson is hereby admitted into the
18 evidentiary record as it appears as an e-Docket
19 filing made on September 25, 2003. I would note
20 that it includes one schedule which is part of the
21 exhibit identified as Schedule 1. Now, Staff is
22 also offering one other piece of testimony, is that

1 correct?

2 MS. EVERSON: That's correct.

3 JUDGE JONES: Is that the direct testimony of
4 Mark Maple, ICC Staff Exhibit 2.0, supported by an
5 affidavit of Mark Maple, ICC staff Exhibit 2.1?

6 MS. EVERSON: Yes, it is.

7 JUDGE JONES: And that's being offered at this
8 time, is that correct?

9 MS. EVERSON: Yes, it is.

10 JUDGE JONES: Does the Company have any
11 objection to that?

12 MS. WALTHER: We do not.

13 JUDGE JONES: ICC Staff Exhibit 2.0 is admitted
14 into the evidentiary record as filed electronically
15 on September 25. It is noted it is identified at
16 the top as ICC Staff Exhibit 2.0, Direct Testimony
17 of Mark Maple. ICC Staff Exhibit 2.1 is admitted
18 into the evidentiary record also. It is a one-page
19 hard copy exhibit which has been stamped by the
20 court reporter.

21 (Whereupon ICC Staff

22 Exhibit 2.0 and 2.1 were

1 admitted into evidence.)

2 I believe during the off-the-record
3 discussion the parties came up with an agreed date
4 for the filing of a suggested or draft order in this
5 matter, that being November 21, 2003. I believe the
6 intent of the parties is that the Company will
7 prepare a draft and provide that to Staff and then
8 the 11/21/03 filing will be either an agreed to
9 order or at least one to which Staff has no
10 objection. As I understand it, that's the plan. Is
11 that what the parties are proposing?

12 MR. WALTHER: That's correct.

13 MS. EVERSON: That's our understanding.

14 JUDGE JONES: Is that acceptable to Staff? All
15 right. The date for the filing of that is November
16 21, 2003. The Company can file that in whichever
17 manner it deems fit. Copies should be served
18 electronically on Staff on that date and on me, and
19 I would ask that the copies served on me be in Word
20 format.

21 MR. WALTHER: Okay. There will be no problem.

22 JUDGE JONES: At least as to the order itself.

1 If there is an attachment to that, that should
2 probably be in either Word format or Excel. That
3 allows us to get into the document and give it the
4 appropriate appendix number, etc. I think that's it
5 then. Anything else for the record?

6 MS. EVERSON: Not from Staff.

7 MR. WALTHER: Not from the Company.

8 JUDGE JONES: At this time let the record show
9 that this hearing is over. In accordance with the
10 above, this matter is hereby marked heard and taken.

11 HEARD AND TAKEN